



**Department of
Administrative Services**
Customer Focused, Performance Driven

Department of Human Resources 42700



**Purchasing Card Audit
Final Summary Report
January 27, 2010**

Executive Summary

Department of Human Resources

42700

- Department of Human Resources responses are shown in green font.
- Revisions to the Draft Summary report and State Purchasing Division responses are shown in blue font.

Purpose and Objectives

The Process Improvement Team from the Department of Administrative Services, State Purchasing Division, has conducted a program management review of the purchasing card program at the Georgia Department of Human Resources.

Each State organization has a responsibility to ensure that purchasing card activities are controlled and that risks are prudently and soundly managed. It is the responsibility of the Process Improvement Team to evaluate internal controls and compliance with policies in order to determine if any areas are in need of improvement. The Process Improvement team then works with Agency personnel to develop and implement action plans to bring about mutually agreed upon improvements. The Process Improvement Team uses a risk-based approach to classify areas in need of improvement into pre-defined high, medium, and low risk levels. This report discusses only the high and medium risk levels. The report also recognizes areas of outstanding program management.

Scope and Methodology

The evaluation of the State Purchasing Card Program consisted of three program areas:

1. Transaction Data Analysis – To evaluate management of credit limits by conducting a review of actual spend compared to cycle limits available to cardholders.
2. Internal Controls Review – To evaluate the Agency's controls over card activities, purchasing card policy, and training materials in order to determine if management has implemented sufficient internal controls to deter and to detect fraudulent activity and that the controls are enforced.
3. On-Site Review – As part of the review, a sample of transactions from the period February 16, 2008, through August 15, 2008, was selected for review. The review of the sample was to determine if:
 - a. Management oversight of card activity, including supervisory review, met minimum requirements as outlined in the State Purchasing Card Policy.
 - b. Transactions complied with purchasing requirements in the Official Code of Georgia, Annotated, (O.C.G.A.); the Georgia Procurement Manual (GPM); the State Purchasing Card Policy; and Agency policy with respect to types of purchases allowed on the card.

Acknowledgements

The Process Improvement Team would like to thank Annette Bazhaw, Agency Procurement Officer, for assistance in scheduling the audit and making resources available to the Process Improvement Team while she was out of the office during this review.

The Process Improvement Team would also like to thank Carolyn Render and Kathy Hawk for their assistance in ensuring that the reconciliation packages were available and orderly. This helped to expedite the on-site portion of the review.

Areas of Outstanding Program Management

Purchasing Card Monthly Review Worksheet

Beginning in July 2008, Carolyn Render, Purchasing Card Coordinator, began to review all cardholder reconciliation packages for adequate documentation, signatures, and appropriateness of purchases. In order to facilitate this review, she uses a checklist, the Purchasing Card Monthly Review Worksheet, which has fields for basic cardholder and supervisor information and a list of criteria each package must meet. The Process Improvement Team noted that Ms. Render was able to follow up with cardholders and supervisors if something was missing or if the purpose was not clear. This is an excellent tool to have in order to ensure that reconciliation packages are checked consistently. It also gives a useful guide to alternate reviewers to follow in the event Ms. Render does not perform the review. Management is to be commended for developing this tool.

Prior Approval of Transactions

The Agency uses a Visa Purchasing Card Transaction Prior Approval Form for cardholders to obtain prior permission for every purchase. Cardholders can receive prior permission either via email, with the documentation attached to the monthly reconciliation package, or by obtaining the approver's signature on the log prior to purchase. This practice, if followed consistently, helps to ensure that transactions are legitimate before the charge is made, thus cutting down on unnecessary purchases. It also gives the supervisor or other approver the opportunity to ensure compliance with State and Agency policies with respect to types of purchases and use of contract vendors when available.

Summary of Findings

Cardholders made 7,618 transactions during the period under review totaling \$1,694,177.10. The Process Improvement Team reviewed 932 (12.23%) of the transactions, of which 183 (19.64%) contributed to six findings.

Overall management of the program is sound since management takes appropriate actions when policy violations are found. Recommendations and corrective actions for procedural and training needs noted in this report will strengthen the card program by ensuring that the Agency complies with procurement regulations. The report also makes three recommendations not related to findings that focus on ways that the Agency can improve the efficiency of the procurement process by (1) using the purchasing card instead of purchase orders and (2) using the reporting tools available through Works Payment Manager.

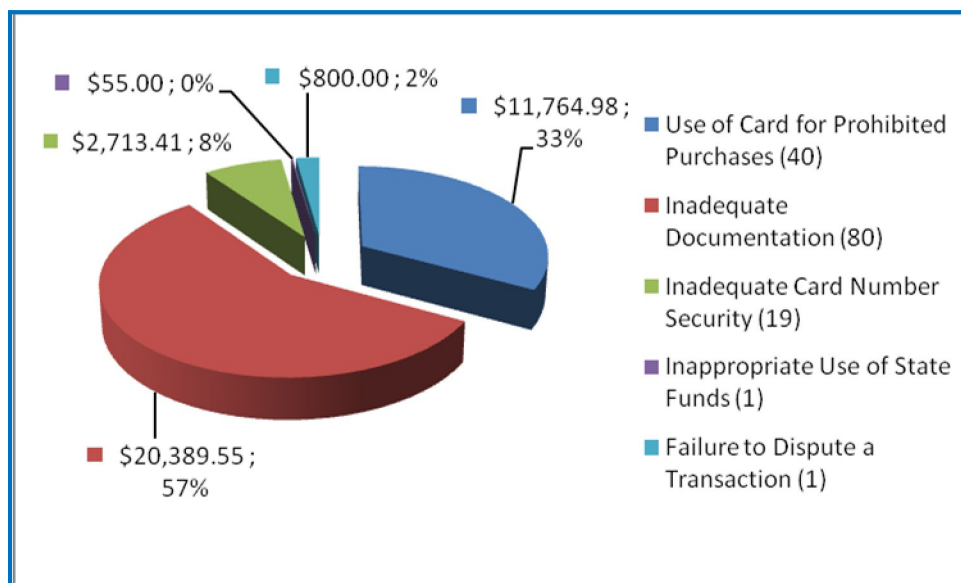
Results of the audit were discussed with Godwin Akhirome, Annette Bazhaw, Arlanda Pickett, Amy Morgan, Kathy Hawk, and Carolyn Render via telephone conference on December 10, 2008. It is recommended that management issue a communication to all cardholders and supervisors informing them of these findings in order to reinforce policy requirements.

The on-site review showed some instances of not following State procurement regulations as found in the Official Code of Georgia, Annotated (O.C.G.A.); the Georgia Procurement Manual (administrative rules); and the State Purchasing Card Policy. The tables below summarize the findings, the associated risk level, and the type(s) of improvements recommended in the Action Plans. "Procedural" recommendations focus on developing and implementing appropriate policies and/or procedures. "Training" recommendations focus on training needs for program personnel in the area cited.

Operational Findings & Recommendations			
Finding	Risk Level	Cause	
		Procedural	Training
Use of the Card for Prohibited Purchases	High	X	X
Inadequate Documentation for Transactions	High		X
Inadequate Card Number Security	High		X
Inappropriate Use of State Funds	High		X
Failure to Dispute a Transaction	Medium		X

Other Recommendations	
Subject	Recommendation
Management of Cardholder Spending Limits	Review cardholder spend to determine if credit limits are appropriate for the job responsibilities and/or level of actual spend. Encourage cardholders who are also buyers in PeopleSoft to use the purchasing card instead of purchase orders for vendors who accept purchasing cards.
Use of Purchasing Card with SWC Vendors	Review payment options with buyers in PeopleSoft and encourage them to use the purchasing card for purchases from Statewide Contract vendors who accept purchasing cards.
Use of Works Payment Manager Reporting Tools	Review Declined Transactions and Forced Transactions reports periodically to identify attempts to use the card at unauthorized vendors.
Handling of Sales Tax	Ensure cardholders have access to the State Sales and Use Tax Exemption form prior to making transactions.

The graph below shows the findings and the dollar amount associated with each finding. The number of transactions contributing to each is shown in the legend with the description.



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FINDINGS BY PROGRAM AREA

On-Site Review

The purpose of the On-Site Review program is to determine if transactions made with the purchasing card comply with (1) the State Purchasing Card Policy, (2) Section 50-5 of the Official Code of Georgia, Annotated (O.C.G.A.), (3) the Georgia Procurement Manual, (4) the Georgia Vendor Manual, when applicable, and (5) the Agency's internal purchasing card program policy.

1. Use of the Card for Prohibited Purchases

Invoices for 40 transactions totaling \$11,764.98 reflected payment for professional services, employee travel expenses, vehicle repairs, and gift cards. The following transactions contributed to this finding:

Cardholder	Purchase Date	Post Date	Merchant	Amount
Professional Services				
Everett*Joyce	04-15-2008	04-17-2008	Boland Prosthtcs & Ort	\$1,180.00
Everett*Joyce	04-15-2008	04-17-2008	Boland Prosthtcs & Ort	\$1,632.00
Everett*Joyce	07-02-2008	07-04-2008	Boland Prosthtcs & Ort	\$(1,632.00)
McNely*Leslie	02-15-2008	02-18-2008	Business Office Plaza	\$1,400.00
McNely*Leslie	04-03-2008	04-04-2008	Coast Dental #3008	\$3,130.00
McNely*Leslie	04-15-2008	04-16-2008	Coast Dental #3008	\$312.99
McNely*Leslie	08-01-2008	08-11-2008	Thomas Hopkin DDS PC	\$1,525.00
			Total Professional Services (7)	\$7,547.99
Gift Cards				
Sanger*Faye	07-31-2008	08-04-2008	Marshalls #860	\$50.00
Sanger*Faye	07-31-2008	08-04-2008	Ross Stores #605	\$50.00
			Total Gift Cards (2)	\$100.00
Employee Travel Expenses				
Linder*T Nicole	02-28-2008	03-03-2008	UGA Ga Ctr Hotel	\$216.84
Person*Kim	04-25-2008	04-28-2008	Marriott 33721 Metro Ctr	\$1,301.88
			Total Employee Travel (2)	\$1,518.72
Vehicle Repairs				
Abrams*Jackie	03-11-2008	03-18-2008	Alan's Alignment	\$50.00
Abrams*Jackie	07-10-2008	07-16-2008	Alan's Alignment	\$60.00
Abrams*Jackie	07-15-2008	07-16-2008	Bob Williams D C P J	\$89.88
Abrams*Jackie	07-15-2008	07-17-2008	O'Reilly Auto 00010215	\$35.33
Abrams*Jackie	07-15-2008	07-16-2008	Sisson Hydraulics, Inc	\$68.50
Abrams*Jackie	07-16-2008	07-17-2008	Bob Williams D C P J	\$127.62
Abrams*Jackie	07-17-2008	07-18-2008	Tucks Auto Parts and Mach	\$16.00
Abrams*Jackie	07-18-2008	07-21-2008	O'Reilly Auto 00010215	\$35.35
Abrams*Jackie	07-18-2008	07-21-2008	O'Reilly Auto 00017251	\$9.01

Cardholder	Purchase Date	Post Date	Merchant	Amount
Abrams*Jackie	07-21-2008	07-23-2008	Goodyear Auto Svs Ct 2124	\$178.60
Abrams*Jackie	07-21-2008	07-23-2008	Goodyear Auto Svs Ct 2124	\$425.44
Abrams*Jackie	07-22-2008	07-23-2008	Courtesy Ford Lincoln	\$141.95
Abrams*Jackie	07-23-2008	07-25-2008	O'Reilly Auto 00010215	\$8.37
Abrams*Jackie	07-23-2008	07-24-2008	Prater Ford-Mercury In	\$72.00
Abrams*Jackie	07-25-2008	07-28-2008	O'Reilly Auto 00010215	\$124.35
Abrams*Jackie	07-29-2008	07-30-2008	Courtesy Ford Lincoln	\$60.60
Abrams*Jackie	07-29-2008	07-31-2008	Goodyear Auto Svs Ct 2124	\$357.20
Abrams*Jackie	07-30-2008	07-31-2008	Prater Ford-Mercury In	\$72.00
Abrams*Jackie	08-01-2008	08-05-2008	Alan's Alignment	\$59.00
Abrams*Jackie	08-06-2008	08-07-2008	Loyd's Wrecker Service	\$60.00
Branton*Garry	02-19-2008	02-21-2008	O'Reilly Auto 00010215	\$40.52
Branton*Garry	02-21-2008	02-25-2008	O'Reilly Auto 00010215	\$36.04
Everett*Joyce	04-15-2008	04-17-2008	Butler Ford Mercury	\$138.00
Everett*Joyce	04-16-2008	04-17-2008	Ivey's Tire Service	\$28.45
Everett*Joyce	04-16-2008	04-17-2008	McMichael Radiator / Muff	\$143.00
Everett*Joyce	04-16-2008	04-21-2008	Chapple-McCall Tire	\$130.74
Everett*Joyce	04-17-2008	04-21-2008	Ivey's Tire Service	\$(28.45)
Stover*Williams	04-17-2008	04-18-2008	Riverside Chevcadillac	\$46.77
Stover*Williams	04-17-2008	04-21-2008	O'Reilly Auto 00010215	\$12.00
			Total Vehicle (29)	\$2,598.27
			Total Prohibited Purchases (40)	\$11,764.98

Implications: (1) Disregard for legal and policy requirements; (2) total cost of ownership of fleet vehicles could be understated; and (3) potential for conversion of purchases for personal use.

Risk Level: **High** due to number of transactions (40) and dollar volume of \$11,764.98.

References: State Purchasing Card Policy
O.C.G.A. Section 50-5-83(b)(7)
O.C.G.A. Section 14-7-2(2)

Recommendation

The State Purchasing Card Policies in effect at the time of the transactions shown above prohibited these types of purchases using the Purchasing Card except under certain circumstances.

All State Purchasing Card Policies, formerly known as "contract guides", have prohibited use of the purchasing card for employee travel expenses and professional services. The State Purchasing Card Policy that went into effect July 1, 2008, further clarified the definition of professional services by adding "as defined in O.C.G.A. 14-7-2(2)" to the line item. According to Georgia Code, professional services include doctors and dentists.

Gift cards were added to the State Purchasing Card Policy listing of prohibited transactions in compliance with O.C.G.A. Section 50-5-83(b)(7) effective July 1, 2008, prior to the date of the two purchases cited above. Documentation with the transactions showed that the Chief Operating Officer of the West Central Georgia Regional Hospital approved these purchases on July 17, 2008, in accordance with standard practice in meeting the needs of certain clients.

Vehicle repairs are prohibited unless the Agency has documented procedures for entering the type and cost of repairs into VITAL, the State's Fleet Management system, and has obtained approval from the State Purchasing Cards Program Manager.

It is recommended that:

1. Management review these areas with cardholders and supervisors to ensure understanding of prohibited purchases;
2. The Agency revise standard practices with respect to gift card purchases and develop an alternate means of meeting client needs; and
3. Document its procedures for entering vehicle repair costs into Maximo and request approval from State Purchasing Division for use of the purchasing card for fleet repairs.

Action Plans (see Action Plan Summary for target dates)

1. Issue a communication to all cardholders, approvers, and other employees in a position to authorize purchases to ensure that they are aware of what purchases are allowed and what purchases are not allowed on the purchasing card.
2. Document procedures for entering vehicle repair costs into Maximo and obtain State Purchasing Division approval for use of the card for vehicle repair charges.

Agency Response

Please refer to the Purchasing Card Training Communication dated 7/28/09 attached. Section A, Prohibited Purchases, addressed this finding.

State Purchasing Division Response

The State Purchasing Division appreciates management's completion of the recommended action plan of informing cardholders of the finding and the appropriate steps to take in the future. The Process Improvement Team will meet with management to ensure that the agency has a sound procedure to ensure capture of all approved costs in the Maximo fleet management system (now known as VITAL: Vehicle Information Tracking and Logistics).

This finding will remain in the report at the stated risk level.

2. Inadequate Documentation for Transactions

As shown on the table below, 80 transactions totaling \$20,389.55 did not have a line-item description receipt, did not have any documentation in the file, or the amount of the transaction shown on the invoice did not match the amount shown on the monthly billing statement.

Special notice should be given to four charges, shown in **bold** font on the table below:

1. The transaction with the Georgia Public Health Association for \$1,530 on March 31, 2008, is for 34 registrations at \$45 per registration. However, only 33 names are shown in the documentation.
2. The two transactions with Georgia Public Health Association on March 31, 2008, for \$45 each appear to be payment for the same conferences as the one transaction for \$90 made on March 21, 2008, that shows PayPal Georgiapubl as the vendor. The documentation for the PayPal charge included two registration forms. There was no documentation for the two \$45 charges, unless the two registration forms were for those transactions. In that case, the PayPal charge does not have adequate documentation. If the registration forms are for the \$90 charge, then it appears that the cardholder paid the registration fees once through a PayPal account and later directly to the Association.

Cardholder	Purchase Date	Post Date	Merchant	Amount
Abney*Charlotte	07-23-2008	07-24-2008	NPDB NPDB - HIPDB.Hrsa.Gov	\$4.75
Abney*Charlotte	08-01-2008	08-04-2008	Ama Profiles Internet	\$31.00
Abney*Charlotte	08-01-2008	08-04-2008	NPDB NPDB - HIPDB.Hrsa.Gov	\$4.75
Abrams*Jackie	07-16-2008	07-17-2008	Bob Williams D C P J	\$127.62
Alexander*Joann	03-06-2008	03-07-2008	Seminars Nat'l/Padgett	\$1,066.25
Alexander*Joann	03-06-2008	03-07-2008	Seminars Nat'l/Padgett	\$1,066.25
Ballard*Diana	07-17-2008	07-21-2008	Staples Direct00209908	\$150.09
Ballard*Diana	07-18-2008	07-21-2008	Staples Direct00209908	\$44.19
Ballard*Diana	07-18-2008	07-21-2008	Staples Direct00209908	\$313.18
Cail*Seletria	07-24-2008	07-25-2008	CDW GOVERNMENT	\$44.44
Cobb*Kesia	05-01-2008	05-05-2008	Staples Busine00348045	\$36.41
Cobb*Kesia	05-13-2008	05-15-2008	Staples Busine00348045	(\$36.41)
Cooley*Ray	04-17-2008	04-18-2008	SSI Bur At Risk Youth	(\$50.00)
Cooley*Ray	04-21-2008	04-23-2008	Office Depot #1214	(\$548.22)
Dixon*Keisha	04-10-2008	04-14-2008	Georgia Public Health Ass	(\$45.00)
Everson*Jamia	04-03-2008	04-07-2008	IMS Copy Center-Dept	\$6.56
Franko*Elizabeth	02-20-2008	02-21-2008	Integrated DNA Technlgs	\$677.10
Franko*Elizabeth	02-27-2008	02-28-2008	Integrated DNA Technlgs	\$2,061.30
Franko*Elizabeth	02-26-2008	02-28-2008	Specialty Gases Southe	\$140.80
Franko*Elizabeth	02-26-2008	02-28-2008	Specialty Gases Southe	\$441.83
Harris*William	02-20-2008	02-21-2008	Fechheimer Bros Co	\$1,311.61

Cardholder	Purchase Date	Post Date	Merchant	Amount
Hilson*Melba	05-06-2008	05-07-2008	Rvi Compactappliance.C	(\$150.00)
Hilson*Melba	05-06-2008	05-07-2008	Rvi Compactappliance.C	(\$150.00)
Horn*Keith	03-11-2008	03-11-2008	Cam Campmor Mailorder	\$315.88
Jeffers*Alice	02-22-2008	02-22-2008	Rdc Roche Diagnostics	\$1,221.00
Jones*Arline	03-18-2008	03-20-2008	Advantage Laser Produc	\$141.00
Jones*Arline	03-29-2008	03-31-2008	Advantage Laser Produc	(\$141.00)
Jones*Arline	04-07-2008	04-09-2008	Advantage Laser Produc	\$1,445.90
Kee*Joyce	02-15-2008	02-18-2008	Ga Sec Of State	\$50.00
Kee*Joyce	03-04-2008	03-05-2008	Awl Ncs Pearson Inc	\$75.00
Kee*Joyce	03-13-2008	03-14-2008	Advantage Laser Produc	(\$92.18)
Kee*Joyce	03-13-2008	03-14-2008	Southern Gerontological	\$255.00
Kee*Joyce	07-30-2008	08-04-2008	Ikon IMS - State Of Ga	\$966.00
Kinnebrew*Angela	03-27-2008	03-31-2008	Pitney Bowes (Laser Life)	\$1,542.00
Kolade*Katrina	03-27-2008	03-31-2008	Georgia Public Health Ass	\$45.00
Kolade*Katrina	03-27-2008	03-31-2008	Georgia Public Health Ass	\$45.00
Kolade*Katrina	03-20-2008	03-21-2008	PayPal Georgiapubl	\$90.00
Kolade*Katrina	07-17-2008	07-21-2008	Minton Jones Company	\$399.98
Linder*T Nicole	07-17-2008	07-21-2008	Minton Jones Company	\$767.30
McNely*Leslie	02-26-2008	02-28-2008	Best Buy 00009738	\$18.41
McNely*Leslie	03-05-2008	03-07-2008	Best Buy 00009738	\$16.41
McNely*Leslie	03-12-2008	03-14-2008	Best Buy 00009738	\$239.41
McNely*Leslie	07-21-2008	07-22-2008	Merle Norman #02452332	\$67.00
McNely*Leslie	07-21-2008	07-22-2008	No Am Brain Injury Socie	\$125.00
McNely*Leslie	07-28-2008	07-30-2008	Merle Norman #02452332	\$120.00
McNely*Leslie	07-29-2008	07-30-2008	Merle Norman #02452332	\$60.00
McNely*Leslie	08-05-2008	08-11-2008	Ikon IMS - State Of Ga	\$73.44
Nation*Jon	03-20-2008	03-24-2008	All Phase Electric #5000	\$477.28
Nation*Jon	03-25-2008	03-26-2008	General Bearing	\$27.52
Nation*Jon	04-01-2008	04-03-2008	Southeast Link	\$94.38
Navarro*Creche	02-29-2008	03-03-2008	WALMART.COM	\$243.76
Pattillo*Eva	03-13-2008	03-17-2008	Office Depot #1214	\$7.90
Reid-Wallace*Valencia	03-27-2008	03-31-2008	Georgia Public Health Ass	\$1,530.00
Shoemaker*Andrea	02-19-2008	02-20-2008	Dominos Pizza #8974	\$47.04
Shoemaker*Andrea	02-27-2008	02-29-2008	Red Lobster Us00003970	\$13.57
Shoemaker*Andrea	03-03-2008	03-05-2008	Canvas Hair Studio	\$100.00
Shoemaker*Andrea	03-05-2008	03-10-2008	Huddle House #184	\$24.51
Shoemaker*Andrea	03-12-2008	03-14-2008	T.J. Applebee's #001	\$60.83
Shoemaker*Andrea	03-22-2008	03-24-2008	Cheesecake Factory #121	\$81.82
Shoemaker*Andrea	03-20-2008	03-24-2008	Jane's Dress Shop	\$223.96
Shoemaker*Andrea	03-22-2008	03-24-2008	Jane's Dress Shop	(\$48.99)
Shoemaker*Andrea	03-26-2008	03-28-2008	Food Studio	\$45.88

Cardholder	Purchase Date	Post Date	Merchant	Amount
Shoemaker*Andrea	04-02-2008	04-04-2008	Wendys-Grayson Q25	\$22.67
Shoemaker*Andrea	04-11-2008	04-14-2008	WUS Weekenders Clothes	(\$40.61)
Shoemaker*Andrea	04-24-2008	04-25-2008	WUS Weekenders Clothes	(\$42.75)
Stone*Marsha	07-23-2008	07-24-2008	Print Inc	\$148.00
Stone*Marsha	07-19-2008	07-28-2008	Print Inc	(\$148.00)
Vann*Kathy	04-04-2008	04-07-2008	Robinson Supply Co	\$155.54
Walker*Donna	07-18-2008	07-21-2008	WALMART.COM	\$279.68
Walker*Donna	07-26-2008	07-28-2008	WALMART.COM	\$139.84
Walker*Donna	08-12-2008	08-13-2008	WALMART.COM	\$184.64
Wells*Annette	03-17-2008	03-19-2008	Office Depot #1214	\$46.96
Wells*Annette	03-18-2008	03-20-2008	Office Depot #1214	\$11.69
Wells*Annette	03-19-2008	03-20-2008	Task Force/Child Srvs	\$250.00
Wells*Annette	03-19-2008	03-21-2008	Georgia Public Health Ass	\$45.00
Wells*Annette	03-19-2008	03-21-2008	Georgia Public Health Ass	\$45.00
Wells*Annette	03-19-2008	03-21-2008	Georgia Public Health Ass	\$45.00
Wells*Annette	03-25-2008	03-27-2008	Office Depot #1214	\$269.99
Wilson*Robert	08-04-2008	08-05-2008	Augusta Swim Supply	\$1,491.90
Yarini*Brenda	03-27-2008	03-31-2008	IMS Copy Center-Dept	\$161.49
			Total Inadequate Documentation (80)	\$20,389.55

Implications: (1) Fraudulent use could go undetected and (2) lack of compliance with State requirements.

Risk Level: **High** due to number of transactions (80) and dollar volume of \$20,389.55.

References: State Purchasing Card Policy
O.C.G.A. 50-5-83(14)
Georgia Vendor Manual

Recommendation

State Purchasing Card Policy and O.C.G.A. § 50-5-83(14) require cardholders to maintain detailed receipts for each purchase, including line item descriptions and prices. Credit card terminal receipts showing only the vendor and the total amount of the transaction are not acceptable.

The Georgia Vendor Manual, Chapter 8, describes the information that invoices should reflect. The information applicable to purchasing card invoices or receipts is vendor name; date of the purchase; line item descriptions, quantities, and prices; and total amount of the charge. In the case of transactions for conference registrations, the invoice should reflect the nature of the conference, the fees, and the employee for whom the registration fee was paid.

Cardholders are responsible for ensuring that the receipts or invoices received from merchants have the required information. Supervisors and other reviewers are responsible for ensuring that cardholders have included adequate documentation for all transactions. If documentation is not submitted, the supervisor or other reviewer should

follow up with the cardholder to obtain the documentation. Review of the files showed that this was done in some cases. However, the transactions shown above did not have adequate documentation.

Action Plan (see Action Plan Summary for target dates)

1. Ensure cardholders and supervisors are aware of documentation requirements.

Agency Response

Please refer to the Purchasing Card Training Communication dated 7/28/09 attached. Section B, Inadequate Documentation for Transactions, addressed this finding.

State Purchasing Division Response

The State Purchasing Division appreciates management's completion of the recommended action plan of informing cardholders of the finding and the appropriate steps to take in the future.

This finding will remain in the report at the stated risk level.

3. Inadequate Card Number Security

Documentation for 19 transactions totaling \$2,713.41 reflected the card number, expiration date, and security code.

Cardholder / Cycle Limit	Purchase Date	Post Date	Merchant	Amount
Ballard*Diana	04-30-2008	05-01-2008	American Acdmy Of Nrs	\$22.10
Courtney*Jimmy	03-12-2008	03-13-2008	Diversitech Corporation	\$520.00
Dixon*Keisha	03-27-2008	03-31-2008	Georgia Public Health Ass	\$45.00
Dixon*Keisha	03-27-2008	03-31-2008	Georgia Public Health Ass	\$45.00
Dixon*Keisha	03-27-2008	03-31-2008	Georgia Public Health Ass	\$45.00
Dixon*Keisha	03-27-2008	03-31-2008	Georgia Public Health Ass	\$45.00
Everett*Joyce	04-02-2008	04-03-2008	NPDB NPDB-HIPDB.HRSA.Gov	\$4.75
Everett*Joyce	04-11-2008	04-14-2008	NPDB NPDB-HIPDB.HRSA.Gov	\$4.75
Everson*Jamia	04-03-2008	04-07-2008	IMS Copy Center-Dept	\$6.56
Kee*Joyce	07-30-2008	08-04-2008	Ikon IMS - State Of Ga	\$966.00
Mitchell*Rita	03-19-2008	03-21-2008	Georgia Public Health Ass	\$45.00
Mitchell*Rita	03-19-2008	03-21-2008	Georgia Public Health Ass	\$45.00
Mitchell*Rita	03-19-2008	03-21-2008	Georgia Public Health Ass	\$45.00
Mitchell*Rita	03-19-2008	03-21-2008	Georgia Public Health Ass	\$45.00
Mitchell*Rita	03-27-2008	03-31-2008	Georgia Public Health Ass	\$45.00
Mitchell*Rita	04-08-2008	04-09-2008	Governors Conf GEMA	\$125.00
Pattillo*Eva	03-14-2008	03-17-2008	APSAC	\$145.00

Cardholder / Cycle Limit	Purchase Date	Post Date	Merchant	Amount
Stone*Marsha	03-13-2008	03-14-2008	American Document	\$500.00
Williams*Michelle	02-27-2008	02-28-2008	NPDB NPDB-HIPDB.HRSA.Gov	\$14.25
			Totals (19)	\$2,713.41

Implications: (1) Potential financial loss for the Agency and (2) disregard for State Purchasing Card Policy

Risk Level: **High** due to the number of cardholders (10) and the total combined cycle limit of \$87,500.

References: State Purchasing Card Policy

Recommendation

It is the cardholder's responsibility to maintain the security of the card account number, expiration date, and three-digit security code at all times in order to prevent unauthorized use.

It is recommended that this responsibility be reinforced with all cardholders. Cardholders should ensure that documentation maintained with the monthly reconciliation package does not show account numbers, expiration dates, and security codes.

Action Plan (see Action Plan Summary for target dates)

1. Ensure that cardholders are aware of the need to keep all account information secure.

AGENCY RESPONSE:

Please refer to the Purchasing Card Training Communication dated 7/28/09 attached. Section C, Inadequate Card Number Security, addressed this finding.

State Purchasing Division Response

The State Purchasing Division appreciates management's completion of the recommended action plan of informing cardholders of the finding and the appropriate steps to take in the future.

This finding will remain in the report at the stated risk level.

4. Failure to Dispute a Transaction

The August 15, 2008, statement for cardholder Leslie McNely reflected a credit for \$810 due to a refused shipment on a purchase made over one year ago.

Implications: (1) The Agency has paid for goods or services that have not been received, causing a financial loss and (2) disregard for State Purchasing Card Policy

Risk Level: **Medium.** Although the Agency received credit and did not suffer a financial loss, the events surrounding the transactions are cause for concern.

References: State Purchasing Card Policy

Recommendation

Documentation for the credit was a copy of the original invoice from AMDI (Advanced Multimedia Devices, Inc.) dated June 8, 2007, over one year ago, with a handwritten note stating that the original charge was credited back to the account on August 15, 2008, because delivery had been refused. United Parcel Service had not been able to locate the shipment for over one year.

In this case, the charge was paid in June 2007 for which the merchandise had not been received. Cardholders are responsible for ensuring that all goods and services charged on the purchasing card are actually received. If a transaction appears on the statement for which the goods or services were not received, the cardholder should contact the merchant to resolve the issue. If the cardholder cannot resolve the issue with the merchant, then the transaction should be disputed via the dispute process with Bank of America.

Although the Agency received credit for the June 2007 transaction, the fact that the original transaction was not handled properly indicates a lack of diligence on the part of the cardholder and her supervisor in ensuring receipt of goods or services prior to payment. It is recommended that management review with all cardholders the procedures to follow (1) in order to ensure receipt of goods or services and (2) in the event goods or services charged by a merchant have not been received.

Action Plan (see Action Plan Summary for target dates)

1. Ensure cardholders and approvers know when to dispute transactions and the procedures to follow in disputing transactions.

Agency Response

Please refer to the Purchasing Card Training Communication dated 7/28/09 attached. Section D, Failure to Dispute a Transaction, addressed this finding.

State Purchasing Division Response

The State Purchasing Division appreciates management's completion of the recommended action plan of informing cardholders of the finding and the appropriate steps to take in the future.

This finding will remain in the report at the stated risk level.

5. Inappropriate Use of State Funds

Cardholder Joyce Everett made a purchase on April 1, 2008, at Flowers by Jeanie for \$55. The flowers were for the funeral of a patient at Central State Hospital in Milledgeville.

Implications: Financial loss to the State
Risk Level: **High** due to financial loss
References: State Purchasing Card Policy

Recommendation

The Process Improvement Team contacted the State Accounting Office to determine if this was an appropriate expenditure of State funds. That office responded that it would not be considered appropriate. It is recommended that the Agency discontinue purchases of this nature.

Action Plan (see Action Plan Summary for target dates)

1. Inform employees that this is not an appropriate expenditure of State funds and that the practice should be discontinued.

AGENCY RESPONSE:

Please refer to the Purchasing Card Training Communication dated 7/28/09 attached. Section E, Inappropriate Use of State Funds, addressed this finding.

State Purchasing Division Response

The State Purchasing Division appreciates management's completion of the recommended action plan of informing cardholders of the finding and the appropriate steps to take in the future.

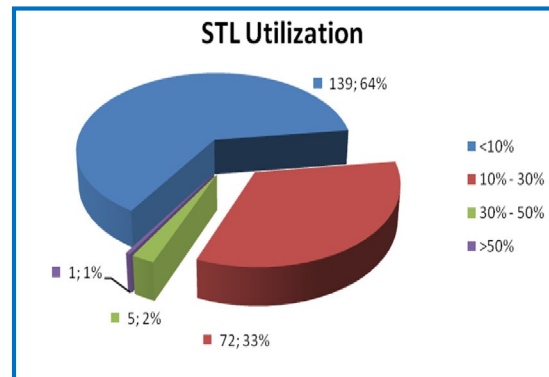
This finding will remain in the report at the stated risk level.

RECOMMENDATIONS NOT RELATED TO FINDINGS

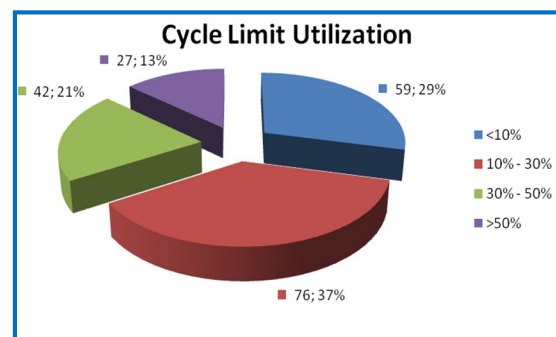
1. Management of Cardholder Spending Limits

Cardholders should have enough spending capacity to purchase the supplies, materials, and services needed in order to perform their jobs or to support other employees in their work units. However, credit limits should not be so high that the Agency is exposed to unwarranted risk in the event card account information is compromised.

The graph to the right (STL Utilization) shows the number of cardholders and the average transaction amount as a percentage of the Single Transaction Limit for the audit period. The majority of cardholders average transaction amount is less than 10% of their STL. Only one cardholder out of 217 cardholders with activity averaged above 50% of the STL. Only four cardholders had a maximum transaction amount over 50% of their STL. Cardholder STL's could be reduced, resulting in less exposure. If needed the limit could be raised temporarily in Works Payment manager to accommodate any special circumstances.



The credit limit for the DHR account is \$1,500,000, an amount designed to cover two cycles of spend in order to allow for time to make payment for the previous cycle. During the audit period, DHR cardholders had \$1,694,177.10 in spend and a combined cycle limit of \$4,500,000 (\$750,000 for each of three cycles). The graph to the right (Cycle Limit Utilization) shows the number of cardholders and the percent of the available cycle limit used.¹ The majority of the cardholders used under 30% of the cycle available to them during the audit period. These Cycle Limits could also be reduced, resulting in less exposure to the Agency. In the event additional credit was needed, the Card Program Administrator could raise the limit temporarily to allow for the additional need.



These figures represent a significant amount of potential exposure to the Agency. Cycle and Single Transaction Limits should be based on actual need and job requirements in order to limit the amount of abuse and/or fraudulent use that could occur.

¹ "Available cycle" was calculated as the number of cycles during which the cardholder had activity times the Cycle Limit for the cardholder. For example, if a cardholder had a Cycle Limit of \$10,000 and had activity during four cycles, the total spend as a percentage of available cycle was calculated as total spend divided by \$40,000.

It is recommended that management conduct a review of spending limits based on actual cardholder spend to lower limits where appropriate in order to reduce the possibility of misuse of the card and/or fraudulent use. It is also recommended that cardholders who are also buyers in PeopleSoft be encouraged to use the purchasing card for purchases from vendors who accept purchasing cards.

2. Use of Purchasing Card with Statewide Contract Vendors

During the audit period, cardholders issued 765 purchase orders to 34 Statewide Contract vendors who accept the purchasing card as the method of payment. Of these 34 vendors, eight had purchasing card transactions from one or more cardholders during the audit period. Review of the spending patterns for cardholders who are also buyers in PeopleSoft showed that of the 11 cardholders shown on the table below, six cardholders (bold font) had cycle limits that would have easily accommodated the volume of spend on purchase orders issued to Statewide Contract vendors who accept the purchasing card. The Agency could have received approval to increase other Cycle Limits in order to accommodate use of the purchasing card for Statewide Contract purchases.

The table below shows cardholders who had purchase orders at SWC vendors but did not utilize the P-card. In some cases, the exposure more than covers the amount of SWC spend. In others, the exposure did not cover the spend.

Cardholder / Cycle Limit	P-Card Spend (6 cycles)	Unused Cycle Limit (6 cycles)	SWC PO Spend (6 cycles)	Cycle Available for SWC Spend
Bernadine Bruen / \$10K	(\$114.90)	\$10,114.90	\$33,208.15	(\$23,093.25)
Carolyn Ward / \$10K	\$4,903.81	\$25,096.19	\$90,598.92	(\$65,502.73)
David Suggs / \$10K	\$36,535.51	\$83,464.49	\$18,812.22	\$64,652.27
Donna Walker / \$20K	\$22,621.75	\$177,378.25	\$103,205.05	\$74,173.20
Joyce Everett / \$10K	\$25,826.33	\$104,173.67	\$358,948.43	(\$254,774.76)
Larry Mann / \$15K	\$222.54	\$14,777.46	\$60,289.01	(\$45,511.55)
Linda Tallent / \$20K	\$15,877.62	\$224,122.38	\$39,771.64	\$184,350.74
Michelle Williams / \$10K	\$33,638.67	\$86,361.33	\$26,047.66	\$60,313.67
Nora Humphreys / \$10K	\$435.50	\$19,564.50	\$14,223.55	\$5,340.95
Santos Morales / \$10K	\$691.24	\$49,308.76	\$66,458.16	(\$17,149.40)
Vanessa Penny / \$15K	\$656.96	\$14,343.04	\$1,401.30	\$12,941.74

Industry figures estimate that the overall cost to process a purchase order from creation to payment averages \$89 while the cost to process a purchasing card transaction averages \$19 (2007 Purchasing Card Benchmark Survey Results). Based on the industry averages, the total cost to process these purchase orders was \$68,085 in employee time and other overhead expenses compared to \$14,535 had the buyers used the purchasing card as the method of payment. The average purchase order amount for all vendors was \$3,008, well within the State-authorized Single Transaction Limit and within the limits of each of the cardholders. The largest and smallest purchase order amounts were \$232,392.12 and \$6.64, respectively. The State Purchasing Card

Policies in effect during this period (January 2008 and July 2008) allowed for purchases in excess of \$5,000 if the purchase was made from a Statewide Contract.

Cardholders should have enough spending capacity to purchase the supplies, materials, and services needed in order to perform their jobs or to support other employees in their work units. However, credit limits should not be so high that the Agency is exposed to unwarranted risk in the event card account information is compromised.

It is recommended that management review payment options with all cardholders and encourage use of the purchasing card when buying from a Statewide Contract vendor. For those cardholders who are also buyers, it is recommended that management review the profiles in Works Payment Manager to determine if limits are adequate to accommodate the increased spend on the purchasing card, keeping in mind that Single Transaction and Cycle Limits can be raised at any time and set to automatically return to the original levels at a specified date in the future. The eProcurement modules of PeopleSoft will make use of the purchasing card as a method of payment an option for method of payment for a purchase order. The new modules also make reconciliation of transactions much faster.

3. Use of Works Payment Manager Reporting Tools

Works Payment Manager, the card program management web application provided by Bank of America, provides a number of audit reports that can be useful in monitoring card activity for possible fraudulent use or misuse of the cards.

The Card Declines report will alert management to transactions cardholders or others have attempted with the card but that were denied at the point of sale. In addition to pointing out possible fraudulent or unauthorized use, management can see if transactions are declined because cardholders have reached their cycle limit. This would allow limits to be raised temporarily so that cardholders still have the purchasing tool they need to do their jobs.

The Forced Transactions report alerts management to transactions that a vendor has forced through the system after the transaction was initially declined. This can alert management to use of the card at unauthorized merchants.

It is recommended that management review these reports on a regular basis.

4. Payment of Sales Tax

Receipts and invoices for 42 transactions totaling \$11,628.88 reflected sales tax charged for \$758.09.

O.C.G.A. § 48-8-3(1) exempts Agencies of the State of Georgia from sales and use taxes when payment is made directly to the merchant with State funds. Furthermore, the State Purchasing Card Policy requires cardholders to inform merchants of the tax-exempt nature of the transactions and to ensure that taxes are not charged. The merchant must credit the account for any taxes charged in error.

Cardholders should ensure merchants are aware of the State's tax-exempt status for all in-state and on-line purchases. Cardholders should print copies of the Department of Revenue Sales and Use Tax exemption Form ST-5 to provide to merchants who request documentation for their files. Cardholders, supervisors, and reconciliation personnel should review all documentation to ensure that the merchant did not charge tax. If the merchant charged tax, then the cardholder should contact the merchant to receive

immediate credit. All attempts to recover taxes should be documented with the monthly reconciliation package.

ACTION PLAN SUMMARY

Training Requirements

For appropriate program administration personnel and cardholders.

Resulting from Finding	Purpose	Requirement	Date Due / Completed
Use of Card for Prohibited Purchases	Ensure program personnel are aware of allowed and prohibited purchases	Issue a communication to all cardholders, approvers, and other employees in a position to authorize purchases on this finding.	08-01-2009 07-30-09
Inadequate Documentation for Transactions	Ensure program personnel are aware of all documentation requirements	Issue a communication to all cardholders, approvers, and other employees in a position to authorize purchases on this finding.	08-01-2009 07-30-09
Payment of Sales Tax	Ensure program personnel are aware of procedures to follow if/when sales tax is charged	Issue a communication to all cardholders, approvers, and other employees in a position to authorize purchases on this finding.	08-01-2009 07-30-09
Inadequate Card Number Security	Ensure program personnel are aware of the need to maintain security over card account information	Issue a communication to all cardholders, approvers, and other employees in a position to authorize purchases on this finding.	08-01-2009 07-30-09
Failure to Dispute a Transaction	Ensure program personnel are aware of the need to verify receipt of goods or services prior to payment and dispute procedures	Issue a communication to all cardholders, approvers, and other employees in a position to authorize purchases on this finding.	08-01-2009 07-30-09
Inappropriate Use of State Funds	Ensure program personnel are aware of the types of purchases for which State funds can be used	Issue a communication to all cardholders, approvers, and other employees in a position to authorize purchases on this finding.	08-01-2009 07-30-09

Procedural Requirements

For appropriate program administration personnel and cardholders.

Resulting from Finding	Purpose	Requirement	Date Due
Use of Card for Prohibited Purchases	Ensure compliance with DOAS Fleet Management requirements	Develop and implement procedure to ensure fleet maintenance costs are entered into the State's fleet management system.	10-31-2009
		Obtain SPD permission to use the P-Card for vehicle maintenance expenses	08-01-2009 07-30-09